



Maquassi Hills Local Municipality
Annual Financial Statements for
the year ended 30 June 2018

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Members of Council	
Mayor	GV Kgabi
	MD Notwane(Speaker)
Councillors	MN Ntuli
	IR Dintwe
	KS Seakane
	J Pheiffer
	KJ Selebalo
	BF Maphatsoe
	AO Phutiagae
	TP Bolao
	SO Masibi
	NF Maxatshwa
	KA Mogapi
	NL Tshingilane
	GJ van Zyl
	LS Tatabang
	TS Malebatsane
	MM Moepi
	SD Manele
	MD Marumo
	GJ Muller
	TP Mokgabi
Accounting Officer	S Lehloenya (Acting)01/07/2017-31/10/2017 and 01/02/2018-30/06/2018
	T Chanda(Acting) 01/12/2017-31/01-2018
Chief Finance Officer (CFO)	J Mogoemang(Acting)01/07/2017-30/06/2018
Accounting Officers	S Lehloenya
	T Chanda
Registered office	19 Kruger Street Wolmaransstad 2630
Business address	19 Kruger Street Wolmaransstad 2630
Postal address	Private Bag X3 Wolmaransstad 2630
Bankers	ABSA Wolmaransstad
Auditors	Auditor - General of South Africa

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 62, in terms of Section 126(1) of the Municipality Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

S Lehlonya
Acting Municipal Manager

DATE... 31/08/18

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page ***.

The annual financial statements set out on page 6 to 64 which have been prepared on the going concern basis, were approved by the council on 31 August 2018 and were signed on its behalf by:



S Lehloenya
Acting Municipal Manager

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The Municipality operates in South Africa.

Maquassi Hills Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998).

The operating results and state of affairs of the Municipality are fully set out in the attached financial statements and do not in my opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year that would require disclosure in the financial statements.

4. Accounting Officers' interest in contracts

The Accounting Officer has no interests in contracts of the Municipality.

5. Accounting policies

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name

S Lehloenya Acting) 01/07/2017-31/10/2017 and 01/02/2018- 30/06/2018

T Chanda (Acting) 01/12/2017-31/01-2018

7. Government Corporate

The Municipality is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the Municipality supports the highest standards of corporate governance and the ongoing development of best practice.

8. Auditors

Auditor - General of South Africa will continue in office for the next financial period.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Assets			
Current Assets			
Inventories	2	820 347	824 819
Investments	3	360 000	360 000
Receivables from non exchange transactions	4	38 180 097	26 537 944
VAT receivable	5	7 012 686	23 161 307
Trade and other receivables from exchange transactions	6	30 547 880	19 639 660
Cash and cash equivalents	7	12 085 772	5 129 860
		88 186 435	75 653 590
Non-Current Assets			
Investment property	8	66 492 000	66 492 000
Property, plant and equipment	9	978 765 622	939 792 975
Investments	3	27 714	27 714
		1 045 285 336	1 006 312 689
Total Assets		1 133 471 771	1 134 363 540
Liabilities			
Current Liabilities			
Other financial liabilities	10	7 199 826	6 029 200
Payables from exchange transactions	11	441 453 542	176 751 502
Consumer deposits	12	2 268 660	2 260 511
Employee benefit obligation	13	932 000	892 000
Unspent conditional grants and receipts	14	433 096	12 830 863
Provisions	15	14 022 411	13 376 940
Bank overdraft	7	-	4 333 879
		466 309 535	216 474 895
Non-Current Liabilities			
Other financial liabilities	10	41 292 880	41 020 225
Employee benefit obligation	13	29 494 000	26 980 000
Provisions	15	4 873 909	4 079 511
		75 660 789	72 079 736
Total Liabilities		541 970 324	288 554 631
Net Assets		591 501 447	845 808 909
Accumulated surplus		591 501 447	845 808 909

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

		2018	2017
	Note(s)	R	Restated* R
Revenue			
Revenue from exchange transactions			
Licence and permits	16	2 103 094	1 945 731
Service charges	17	152 921 023	166 691 833
Rental of facilities and equipment	18	572 058	722 353
Other income	19	1 246 855	2 558 634
Interest revenue	20	64 537 904	55 404 821
Gain on disposal of assets and liabilities		-	354 130
Total revenue from exchange transactions		221 380 935	227 677 502
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	32 089 433	35 084 639
Fair value adjustments		-	1 320
Transfer revenue			
Government grants	22	172 178 844	170 238 474
Fines		15 876 540	11 577 729
Total revenue from non-exchange transactions		220 143 829	216 902 162
Total revenue	16	441 524 764	444 579 664
Expenditure			
Employee related costs	23	(65 455 048)	(62 603 455)
Remuneration of councillors	24	(8 577 778)	(7 521 988)
Depreciation	25	(30 519 569)	(40 763 631)
Impairment loss	9	(43 570)	(2 878 445)
Finance costs	26	(7 653 693)	(6 329 652)
Debt impairment	27	(146 894 035)	(178 641 499)
Collection costs		(1 110 074)	-
Repairs and maintenance		(7 067 478)	(12 213 961)
Bulk purchases	28	(101 818 867)	(101 043 852)
Contracted services	29	(14 052 668)	(6 147 831)
Loss on disposal of assets and liabilities		(1 614 289)	-
General expenses	30	(39 900 253)	(47 722 835)
Total expenditure		(424 707 322)	(466 604 850)
Surplus (deficit) for the year		16 817 442	(22 025 186)

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
	R	R
Balance at 01 July 2016 as restated	823 466 212	823 466 212
Changes in net assets		
Surplus for the year as previously stated	(29 807 667)	(29 807 667)
Correction on prior year error – Note 43	4 410 381	4 410 381
Total changes	(25 397 286)	(25 397 286)
Restated* Balance at 01 July 2017	845 808 909	845 808 909
Changes in net assets		
Surplus for the year	16 817 442	16 817 442
Total changes	237 490 020	237 490 020
Balance at 30 June 2018	591 501 447	591 501 447
Note(s)		

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		79 165 057	86 388 256
Government grants		185 009 707	172 387 001
Interest revenue		966 754	915 117
Consumer Deposits		-	33 405
Other receipts		22 770 361	22 770 361
		<u>287 911 879</u>	<u>305 807 025</u>
Payments			
Employee costs		(73 972 100)	(73 147 616)
Suppliers and other payments		(109 911 396)	(109 911 396)
Interest paid		(3 307 219)	(3 307 219)
		<u>(187 190 715)</u>	<u>(205 486 876)</u>
Net cash flows from operating activities	32	<u>100 721 164</u>	<u>273 174 948</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(144 682 760)	(144 682 760)
(Increase) / Decrease in long term investments		1 751 642	1 751 642
Net cash flows from investing activities		<u>(142 931 118)</u>	<u>(142 931 118)</u>
Cash flows from financing activities			
Long term loan repaid		1 843 255	1 091 259
Distributions to owners		-	33 405
Net cash flows from financing activities		<u>1 843 255</u>	<u>1 124 664</u>
Net increase/(decrease) in cash and cash equivalents		6 955 913	(6 922 508)
Cash and cash equivalents at the beginning of the year		5 129 860	5 129 860
Cash and cash equivalents at the end of the year	7	<u>12 085 773</u>	<u>12 085 773</u>

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange
transactions

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Licence and permits	-	-	-	2 103 094	2 103 094	Note 45
Service charges	161 078 000	5 166 000	166 244 000	152 921 023	(13 322 977)	Note 45
Rental of facilities and equipment	642 975	25 025	668 000	-	(668 000)	
Interest received (External Investments)	450 000	250 000	700 000	-	(700 000)	
Interest received(Trading)	51 975 000	(6 391 000)	45 584 000	572 058	(45 011 942)	
Dividends received (trading)	2 019	1 981	4 000	-	(4 000)	
Licences and permits	9 692 990	-	9 692 990	-	(9 692 990)	
Other income	2 503 134	(989 134)	1 514 000	1 246 855	(267 145)	
Interest revenue	-	-	-	64 537 904	64 537 904	Note 45
Total revenue from exchange transactions	226 344 118	(1 937 128)	224 406 990	221 380 935	(30 260 56)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	36 708 000	1 861 000	38 569 000	32 089 433	(1 147 407)	Note 45
Transfer revenue						
Government grants	108 592 000	157 000	108 749 000	172 178 844	63 429 844	Note 45
Fines, Penalties & Forfeits	3 592 340	-	3 592 340	15 876 540	12 284 200	Note 45
Total revenue from non-exchange transactions	148 892 340	2 018 000	150 910 340	220 144 817	74 566 637	
Total revenue	375 236 458	80 872	375 317 330	441 525 751	84 018 302	
Expenditure						
Employee related costs	86 198 549	(291 549)	85 907 000	(65 455 048)	(151 362 048)	Note 45
Remuneration of councillors	8 190 605	291 395	8 482 000	(8 577 778)	(17 059 778)	
Depreciation and amortisation	42 683 940	-	42 683 940	(30 519 569)	(73 203 509)	
Debt impairment	-	-	-	(43 570)	(43 570)	Note 45
Finance costs	4 150 000	(2 650 000)	1 500 000	(7 653 693)	(9 153 693)	Note 45
Debt Impairment	52 774 124	-	52 774 124	(146 894 035)	(62 925 487)	Note 45
Transfers and subsidies	371 000	-	371 000	-	(371 000)	
Collection costs	-	-	-	(1 110 074)	(1 110 074)	
Repairs and maintenance	-	-	-	(7 067 478)	(3 451 003)	Note 45
Bulk purchases	100 163 353	(9 000 353)	91 163 000	(101 818 867)	(10 655 671)	Note 45
Contracted services	30 700 000	3 890 000	34 590 000	(14 052 668)	(48 642 668)	Note 45
Other materials	16 193 491	-	16 193 491	-	(16 193 491)	
General Expenses	30 034 599	(6 636 599)	23 398 000	(39 900 253)	(51 801 290)	Note 45
Total expenditure	371 459 661	(14 397 106)	357 062 555	(423 093 033)	(625 275 384)	
Operating surplus	746 696 119	(14 316 234)	732 379 885	18 432 718	(541 257 082)	
Loss on disposal of assets	-	-	-	(1 614 289)	(1 614 289)	
Surplus for the year	746 696 119	(14 316 234)	732 379 885	168 818 429	(542 871 371)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	900 000	-	900 000	820 347	(79 653)	
Investments	-	-	-	360 000	360 000	
Trade and other receivables from non-exchange transactions	27 290 000	(352 000)	26 938 000	30 547 880	3 609 880	
VAT receivable	-	-	-	7 012 686	7 012 686	
Receivables from exchange and non-exchange transactions	22 409 000	-	22 409 000	30 547 880	8 138 880	Note 45
Consumer Deposits	(38 974 000)	-	(38 974 000)	-	38 974 000	
Cash and cash equivalents	6 500 000	-	6 500 000	12 085 772	5 585 772	Note 45
	18 125 000	(352 000)	17 773 000	81 374 565	63 601 565	
Non-Current Assets						
Investment property	66 492 000	-	66 492 000	66 492 000	-	
Property, plant and equipment	906 215 468	99 532	906 315 000	978 765 622	72 450 622	Note 45
Investments	-	-	-	27 714	27 714	
	972 707 468	99 532	972 807 000	1 045 285 336	72 478 336	
Total Assets	990 832 468	(252 468)	990 580 000	1 134 207 671	143 627 671	
Liabilities						
Current Liabilities						
Other financial liabilities	2 800 000	2 929 000	5 729 000	7 199 826	1 470 826	Note 45
Payables from exchange transactions	156 040 000	23 000	156 063 000	193 381 559	37 318 559	Note 45
Consumer deposits	-	-	-	2 268 660	2 268 660	
Employee benefit obligation	-	-	-	932 000	932 000	Note 45
Unspent conditional grants and receipts	-	-	-	433 096	433 096	Note 45
Provisions	-	-	-	14 022 411	14 022 411	Note 45
Bank overdraft	4 200 000	-	4 200 000	-	(4 200 000)	Note 45
	163 040 000	2 952 000	165 992 000	218 237 552	52 245 552	
Non-Current Liabilities						
Other financial liabilities	40 044 000	-	40 044 000	41 292 880	1 248 880	Note 45
Employee benefit obligation	-	-	-	29 494 000	29 494 000	Note 45
Provisions	38 645 000	-	38 645 000	4 873 909	(33 771 091)	Note 45
	78 689 000	-	78 689 000	75 660 789	(3 028 211)	
Total Liabilities	241 729 000	2 952 000	244 681 000	293 898 341	49 217 341	
Net Assets	749 103 468	(3 204 468)	745 899 000	840 309 330	94 410 330	

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Maquassi Hills Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	14 371 775	20 128 225	34 500 000	39 318 288	4 818 288	
Service charges	62 227 842	88 120 097	150 347 939	57 279 551	(93 068 388)	
Government Grants	127 619 340	61 936 716	189 556 056	172 177 845	(10 716 056)	
Other receipts	17 533 362	(4 431 966)	13 101 396	16 804 447	3 703 051	
	221 752 319	165 753 072	387 505 391	285 580 131	(95 263 105)	

Payments

Suppliers, employee and other payments	(271 004 143)	40 457 008	(230 547 135)	(142 114 190)	88 432 945	
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Net cash flows from operating activities	(49 251 824)	206 210 080	156 958 256	150 128 096	(6 830 160)	
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Net increase/(decrease) in cash and cash equivalents	(49 251 824)	206 210 080	156 958 256	150 128 096	(6 830 160)	Note 45
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Cash and cash equivalents at the end of the year	(49 251 824)	206 210 080	156 958 256	150 128 096	(6 830 160)	
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Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, which is the functional currency of the municipality, and rounded to the nearest Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Financial assets

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The recoverable amounts of cash-generating units/ individual assets and non-cash generating assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact estimations and may then require a material adjustment to the carrying value of related assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for the assets. Expected future cash flows used to determine the value in use of related assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand for municipal services, timing of cash flows, together with economic factors such as inflation and interest rates. Refer to sections 1.7 and 1.8 for more detail on the accounting policies for impairment of cash-generating and non-cash-generating assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Useful lives and residual values of property, plant and equipment

The municipality's management determines the estimated useful lives and residual values of property, plant and equipment. This estimate is based on judgment and the Municipality's plans with respect to the assets. Accumulated depreciation is adjusted accordingly to reflect the change in useful lives.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the Municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the Municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the Municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The Municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the Municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Maquassi Hills Local Municipality

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Accounting Policies

1.4 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Maquassi Hills Local Municipality

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Accounting Policies

1.4 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Electricity	Straight line	5 - 80 years
Roads	Straight line	5 - 80 years
Water	Straight line	10 - 100 years
Sewerage	Straight line	15 - 100 years
Pedestrians malls	Straight line	10 - 100 years
Housing	Straight line	80 years
Solid waste	Straight line	5 - 100 years
Rail waste	Straight line	20 - 100 years
ICT	Straight line	1 - 120 years
Buildings	Straight line	20 - 80 years
Office equipment	Straight line	3 - 5 years
Furniture and fittings	Straight line	7 years
Other items of plant and equipment	Straight line	2 - 20 years
Specialised vehicles	Straight line	3 - 20 years
Specialised plant and equipment	Straight line	10 - 20 years
Water craft	Straight line	15 years
Buildings and other assets	Straight line	20 - 80 years
Recreation facilities	Straight line	10 - 80 years
Security measures	Straight line	5 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Maquassi Hills Local Municipality

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Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Initial recognition

Financial instruments are recognised when the Municipality becomes a party to contractual provision of the instruments. Financial instruments are initially recognised at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the nature and terms of the financial instrument for which the financial instruments were obtained / incurred and takes place at initial recognition.

Subsequent measurement of financial assets and financial liabilities

Trade and other receivables

Debtors are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Bad debts are written off during the year in which they are identified in surplus or deficit.

Trade and other payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents, and short-term investments

Cash and cash equivalents comprise cash on hand and demand deposits; and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at fair value and subsequently measured at amortised cost.

Bank overdraft, borrowings and other financial liabilities

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the effective interest rate method.

Maquassi Hills Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

Bank overdraft and other financial liabilities are subsequently carried at amortised cost.

Impairment and uncollectibility of financial assets

The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

On the derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (including any asset obtained less any liability assumed) is recognised in surplus or deficit.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, waived or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Maquassi Hills Local Municipality

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Accounting Policies

1.6 Leases (continued)

Operating leases - The Municipality as lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases -The Municipality as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are recognised as an asset if :

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- the cost of the inventories can be measured reliably.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality would incur to acquire the asset on the reporting date.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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Accounting Policies

1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

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Accounting Policies

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and reduced by the fair value of plan assets.

Maquassi Hills Local Municipality

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1.10 Employee benefits (continued)

Other employee benefits

The Municipality provides post-retirement health care benefits, upon retirement to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The Municipality also provides long service awards. Awards are accrued over the period of employment.

Independent qualified actuaries carry out valuations of these awards.

The cost of providing the above mentioned benefits is determined using the projected unit credit method.

Actuarial gains/losses

Actuarial gains and losses may result from increases or decreases in either the present value of a defined employee benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses may include:

- unexpectedly high or low rates of employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in estimates of future employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in the discount rate; and
- differences between the actual return on plan assets and the expected return on plan assets.

Actuarial gains and losses are recognised in full in the year that they occur in surplus or deficit.

1.11 Provisions and contingencies

Provision is a liability of uncertain timing or amount.

The provision for landfill site is recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the future expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of the provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If the Municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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Accounting Policies

1.11 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential is probable. Contingencies are disclosed in the relevant note to the financial statements.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and Value Added Tax (VAT).

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion that the costs incurred to date bear to the total estimated costs of the transaction.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Maquassi Hills Local Municipality

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Accounting Policies

1.12 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of the Municipality assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation. Taxes

are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers and grants

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Income foregone

Requests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Indigent subsidy

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.14 Comparative figures and prior period errors

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

The Municipality corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of the total amount appropriated in the Municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with MFMA.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Commitments

Where the Municipality has committed itself to future transactions where there is the probability of the outflow of resources, it is regarded as capital commitments.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.18 Commitments (continued)

The identified capital commitments are only disclosed in the notes to the financial statements and are not regarded as liabilities.

The commitments are disclosed when the specific expenditure is approved and the tender has already been awarded to certain contractors at reporting date. If the contract has been awarded at reporting date, but the goods or services have not been delivered/rendered, the Municipality also discloses the contract as a capital commitment.

1.19 Budget information

The budget has been included in the financial statements in accordance with GRAP 24.

The approved budget covers the fiscal period from 01/07/2017 to 30/06/2018.

The financial statements and the budget are both prepared on the accrual basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

The comparison between the last budget approved by the Municipal Council and the final budget is included as an appendix to the financial statements. Explanations of the significant variances between the last approved budget and final budget are included in the related appendix.

Furthermore explanations of the significant variances between the budget and actual amounts are also included as an appendix to the financial statements.

1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Subject to the exception discussed below, if the Municipality has had related party transactions during the periods covered by the financial statements, it discloses the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosures will be in addition to the disclosure of remuneration of management.

The Municipality does not disclose related party transactions where such transactions occur within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the Municipality's legal mandate.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include key management personnel and close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the Municipal Council where the Council has jurisdiction. The Council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of Municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the Municipality. Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.21 Events after reporting date (continued)

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The amounts recognised in the financial statements are adjusted to reflect any adjusting events after the reporting date.

The amounts recognised in the financial statements are not adjusted for non-adjusting events after the reporting date.

Disclosure of a material non-adjusting event is made in a note to the financial statements.

1.22 Going concern

The annual financial statements have been prepared on the assumptions that the Municipality will continue to operate as a going concern for at least the next twelve months.

1.23 VAT

The Municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15 (2)(a) of the Value-Added Tax Act No 89 of 1991.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

2018

2017

Maquassi Hills Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
2. Inventories		
Consumable stores	787 084	785 297
Water stock	33 263	39 522
	820 347	824 819

There were no inventory write downs during the year. No inventories are pledged as security for any liabilities.

3. Investments

At fair value

ABSA Bank Limited	360 000	360 000
SWK Shares Maquassi	6 943	6 943
SWK Shares Wolmaransstad	9 366	9 366
SWK Shares Leeudoringstad	11 405	11 405
	387 714	387 714

Non-current assets

At fair value	27 714	27 714
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Current assets

At fair value	360 000	360 000
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Investment amounting to R 360 000 (ABSA, Account no:2057750696) is pledged as security / collateral.

4. Receivables from non-exchange transactions

Fines	19 395 282	16 634 348
Prepayment	2 671 748	3 257 498
Other consumer debtors	7 620 732	1 158 153
Other receivables	1 118 361	2 049 345
Property rates	7 365 093	4 024 350
	38 180 097	27 123 694

As at 30 June 2018

	Gross Balance	Impairment	Net Balance
Fines	72 316 598	(52 921 315)	19 395 283
Prepayments	2 671 748	-	2 671 748
Other consumer debtors	269 618 676	(261 997 944)	7 620 732
Other receivables	1 118 361	-	1 118 361
Property rates	79 667 089	(72 293 115)	7 373 974
	425 392 472	(387 212 374)	38 180 097

As at 30 June 2017

	Gross Balance	Impairment	Net Balance
Fines	59 458 068	(42 823 720)	16 634 348
Prepaid expenses	3 257 498	-	3 257 498
Other consumer debtors	207 769 746	(206 611 593)	1 158 153
Other receivables	2 049 345	-	2 049 345
Property rates	65 360 859	(61 336 509)	4 024 350
	337 895 516	(310 771 822)	27 123 694

Ageing as at 30 June 2018

	Property rates	Other consumer debtors
Current (0-30 days)	1 835 555	5 608 108

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
4. Receivables from non-exchange transactions (continued)		
31 - 60 days	1 629 920	5 520 509
61 - 90 days	1 561 627	5 512 103
91+ days	74 639 988	252 977 955
Total	79 667 090	269 618 675
Ageing as at 30 June 2017		
	Property rates	Other consumer debtors
Current (0-30 days)	2 453 429	5 001 109
31 - 60 days	1 647 092	4 908 136
61 - 90 days	1 457 746	4 738 595
91+ days	59 802 592	193 121 906
Total	65 360 859	207 769 746
Reconciliation of allowance for impairment		
Beginning of the year	310 771 822	231 374 288
VAT provision	24 230	62 566
Contribution to provision	76 416 323	79 334 968
Balance at the end of year	387 212 375	310 771 822
5. VAT receivable		
VAT	7 012 686	26 433 098
6. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	27 692 846	22 410 196
Water	371 458 682	320 523 626
Sewerage	203 033 155	174 905 827
Refuse	105 073 414	90 974 549
	707 258 097	608 814 198
Less: Allowance for impairment		
Electricity	(15 334 996)	(15 715 459)
Water	(360 337 687)	(318 003 214)
Sewerage	(198 116 086)	(165 276 099)
Refuse	(102 921 447)	(90 179 766)
	(676 710 217)	(589 174 538)
Net balance		
Electricity	12 357 850	6 694 737
Water	11 120 995	2 520 412
Sewerage	4 917 069	9 629 728
Refuse	2 151 967	794 783
	30 547 880	19 639 660
Ageing as at 30 June 2018		
Current (0-30 days)	12 880 502	17 289 853
31 - 60 days	11 099 149	13 255 651
61 - 90 days	9 997 202	10 415 472
91 + days	673 281 244	567 853 222
	707 258 097	608 814 198

Maquassi Hills Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
6. Trade and other receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(589 174 538)	(477 572 286)
Contributions to allowance	(87 535 678)	(111 602 252)
Balance at the end of year	(676 710 216)	(589 174 538)
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	7 893	158
Bank balances	12 077 879	5 129 702
Bank overdraft	-	(4 333 879)
	12 085 772	795 981
Current assets	12 085 772	5 129 860
Current liabilities	-	(4 333 879)
	12 085 772	795 981

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
ABSA BANK - Current Account 4055605473	1 387 755	2 903 765	1 387 755	(4 333 333)
ABSA BANK - Current Account - 4061545689	851 412	927 292	851 412	927 292
ABSA BANK - Current Account 4050989969	1 001 002	831 905	1 001 002	831 905
ABSA BANK - Current Account 4064023765	5 700 759	1 826 890	5 700 759	1 826 890
ABSA BANK - Current Account 4046584280	2 433	3 574	2 433	3 574
ABSA BANK - Current Account 4055636965	23 019	23 635	23 019	23 635
ABSA BANK - Current Account 4049678703	18 150	20 078	18 150	20 078
ABSA BANK - Current Account 4055686261	2 570 372	998 706	2 570 372	998 706
ABSA BANK - Current Account 4052543232	4 410	5 583	4 410	5 583
ABSA BANK - Current Account 4064692380	20 787	21 399	20 787	21 399
ABSA BANK - Current Account 9138622959	80 363	74 795	80 363	74 795
ABSA BANK - Current Account 9126643503	425 310	395 845	425 310	395 845
Total	12 085 772	8 033 467	12 085 772	796 369

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R			2017 R		
8. Investment property						
	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	66 492 000	-	66 492 000	66 492 000	-	66 492 000

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	66 492 000	66 492 000

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	66 492 000	66 492 000

No assets are pledged as security.

The significant portion of the Municipality's investment property is vacant land.

Investment properties were valued by an independent professional valuer during the 2015/16 financial year. The municipality performs valuation every four years. No indication was identified during the current year that any change in the fair value of these investment properties occurred.

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	228 669 149	(89 571 282)	139 097 867	228 669 149	(85 404 438)	143 264 711
Infrastructure	1 464 159 782	(676 936 314)	787 223 468	1 383 548 023	(639 600 094)	743 947 929
Community	61 272 044	(44 916 782)	16 355 262	61 961 204	(42 789 143)	19 172 061
Work in progress	31 445 535	-	31 445 535	30 450 041	-	30 450 041
Other assets	17 760 413	(13 116 923)	4 643 490	17 760 413	(14 120 733)	3 639 680
Total	1 803 306 923	(824 541 301)	978 765 622	1 722 388 830	(781 914 408)	940 474 422

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Impairment loss	Total
Land and buildings	143 264 711	-	-	-	(4 166 844)	-	139 097 867
Infrastructure	743 947 929	71 078 861	(1 106 053)	-	(26 697 269)	-	787 223 468
Community	19 172 061	-	(645 589)	-	(2 127 640)	(43 570)	16 355 262
Work in progress	30 450 041	72 074 355	-	(71 078 861)	-	-	31 445 535
Other assets	3 639 680	1 529 544	-	-	(525 734)	-	4 643 490
	940 474 422	144 682 760	(1 751 642)	(71 078 861)	(33 517 487)	(43 570)	978 765 622

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land and buildings	148 487 967	-	-	-	-	(4 340 750)	(882 506)	143 264 711
Infrastructure	736 269 803	-	-	41 991 987	(1 995 939)	(32 317 922)	-	743 947 929
Community	21 709 682	-	-	-	-	(2 537 621)	-	19 172 061
Work in progress	11 256 591	61 185 437	-	(41 991 987)	-	-	-	30 450 041
Other assets	4 461 506	1 621 716	(89 575)	(48 930)	-	(2 305 037)	-	3 639 680
	922 185 549	62 807 153	(89 575)	(48 930)	(1 995 939)	(41 501 330)	(882 506)	940 474 422

No assets are pledged as security and there are no restrictions on the title for property, plant and equipment.

9. Property, plant and equipment (continued)

Depreciation rates

During the year the municipality have performed condition assessments of assets that reach a zero remaining useful life. The effect of the change in remaining life of assets is lower depreciation in the current year of R670,734. Subsequently future depreciation will increase with the value of R 670,734 spread over an average of 23 years. Details of the effect of change in estimate is recorded below:

Item	Depreciation method	Average useful life
Infrastructure - Road networks	Straight line	17
Infrastructure - Sanitation networks	Straight line	45
Infrastructure - Stormwater networks	Straight line	21
Land and buildings - Community facilities	Straight line	21
Land and buildings - Operational facilities	Straight line	16
Land and buildings - Sporting and recreational facilities	Straight line	19

Impairment loss

10. Borrowings

At amortised cost

Bank loan	-	5 629 225
Annuity loan DBSA 61007163	514 866	468 845
Annuity loan DBSA 61007165	47 854 141	39 806 532
Dr Kenneth Kaunda District Municipality	123 698	744 848
Total borrowings	48 492 705	46 649 450

Non-current liabilities

At amortised cost	41 292 880	41 020 225
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Current liabilities

At amortised cost	7 199 826	5 629 225
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The Municipality received three loans from the Development Bank of Southern Africa (DBSA) to fund infrastructure expenditure and one has been settled by Dr Kenneth Kaunda District Municipality.

The terms are as follows:

	Interest rate	Redemption date
DBSA 61007163	7.5%	30.06.2017
DBSA 61007165	5%	30.06.2033
Dr Kenneth Kaunda District Municipality	0.0%	30.09.2016

11. Payables from exchange transactions

Accruals	151 038 600	154 100 045
Accrued bonus	1 009 475	1 041 306
Accrued leave pay	6 027 526	6 986 174
Consumer debt	-	227 495
Department of Human Settlement	-	764 600
Deposits	591 141	593 031
Department of Transport	-	346 451
Other creditors	225 251 142	228 473
Payments received in advance	3 431 094	3 737 032

11. Payables from exchange transactions (continued)

Performance bonus accrual	162 080	352 860
Retention	11 510 384	7 642 281
Trade creditors	42 432 100	-
	441 453 542	176 019 748

Trade payables are normally settled within 30 days.

The leave pay accrual is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. The leave pay accrual represents the number of leave days due to individual staff members at year end. The amount of the accrual is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Payments received in advance represents advance payments made by customers.

12. Consumer deposits

Water and Electricity	2 268 660	2 260 511
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The amount reflected represent a cost value. No interest accrues in favour of the consumer upon termination of the service delivery with the Municipality.

13. Employee benefit obligation**Defined benefit plan****Post-retirement health care benefits**

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme.

Eligible employees are entitled to receive a post-employment subsidy, which will be at a rate of 60% of the contribution payable should they be a member of a medical scheme at retirement. All continuation members and their eligible dependants receive a 60% subsidy.

The projected unit credit method has been used to value the liability. The valuation was performed by One Pangea as at 30 June 2018.

There are no assets backing the post-retirement health care liability.

13. Employee benefit obligation (continued)

Long service awards

The Municipality offers employees long service award for every five years of service completed, from ten years of service to 40 years of service, inclusive. The recognition of service is calculated from the later of the date of appointment and 1 July 1986.

The projected unit credit method has been used to value the liability. The valuation was performed by One Pangea as at 30 June 2018.

There are no assets backing the long service award liability.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	27 872 000	28 515 000
Present value of the defined benefit obligation-partly or wholly funded	1 852 000	1 940 000
Fair value of plan assets	(892 000)	(932 000)
Fair value of reimbursement rights	2 719 000	2 758 000
Other [provide details]	(1 125 000)	(4 409 000)
Closing balance	30 426 000	27 872 000

Non-current liabilities	(29 494 000)	(26 980 000)
Current liabilities	(932 000)	(892 000)
	(30 426 000)	(27 872 000)

Net expense recognised in the statement of financial performance

Current service cost	1 852 000	1 940 000
Past service cost	(892 000)	(932 000)
Interest cost	2 719 000	2 758 000
Actuarial (gains) losses	(1 125 000)	(4 409 000)
	2 554 000	(643 000)

13.1 Post retirement health care benefits

Opening balance	24 260 000	24 940 000
Current service costs	1 557 000	1 349 000
Benefits paid	(518 000)	(537 000)
Actuarial loss/gain	(1 207 000)	(3 927 000)
Interest costs	2 420 000	2 435 000
Closing balance	26 512 000	24 260 000

Net expense recognised in Statement of Financial Performance

Current services costs	1 557 000	1 349 000
Benefits paid	(518 000)	(537 000)
Actuarial loss/(gain)	(1 207 000)	(3 927 000)
Interest cost	2 420 000	2 435 000
	2 252 000	(680 000)

13. Employee benefit obligation (continued)

13.2 Long service award

Opening balance	3 612 000	3 575 000
Current service costs	295 000	591 000
Benefits paid	(374 000)	(395 000)
Actuarial gains (losses)	82 000	(482 000)
Benefits paid	299 000	323 000
Closing balance	3 914 000	3 612 000
Net expense recognised in Statement of Financial Performance		
Current services costs	295 000	591 000
Benefits paid	(374 000)	(395 000)
Actuarial (gain)/loss	82 000	(482 000)
Interest cost	299 000	323 000
	302 000	37 000

Key assumptions used - Post-retirement Health Care Benefits

Assumptions used at the reporting date:

Discount rates used	10.9 %	10.9 %
Expected rate of return on assets	8.5 %	8.5 %
Expected rate of return on reimbursement rights	70.0 %	7.0 %

Sensitivity Analysis - Post-retirement Health Care Benefits

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and health care inflation would have the following effect:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	3 862 000	4 958 000

Key assumptions used - Long Service Awards

	2018 R	2017 R
Plan assets	8.92%	8.80%
Surplus (deficit)	6.44%	7.40%
Experience adjustments on plan liabilities	5.44%	6.40%
	63	63
	255	233

Sensitivity Analysis - Long Service Awards

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and salary inflation rate would have the following effects:

	1% increase	1% decrease
Effect of discount rate changes on the obligation	(284 000)	(330 000)
Effect of salary inflation changes on the obligation	331 000	283 000

13. Employee benefit obligation (continued)

Basis for the discount rate used

The discount rate used for post-retirement healthcare benefits and long service award obligation as at 30 June 2018 has been derived from the government bond yield curve published by the Bond Exchange of South Africa at the same date.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	12 291 846
Provincial Government Library Grant	-	41 458
Finance Management Grant	412 780	477 243
Dr Kenneth Kaunda District Municipality	20 316	20 316
	433 096	12 830 863

Movement during the year

Balance at the beginning of the year	12 830 863	10 682 336
Additions during the year	66 329 078	178 840 000
Income recognition during the year	(78 726 845)	(170 238 473)
Amounts returned to NT during the year	-	(6 453 000)
	433 096	12 830 863

See Note 22 for reconciliation of grants from National/Provincial Government.

15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	17 456 451	1 439 869	18 896 320

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	17 896 295	(439 844)	17 456 451
Non-current liabilities		4 873 909	-
Current liabilities		14 022 411	13 376 940
		18 896 320	13 376 940

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. A report was compiled for all landfill sites after being inspected by One Pangea. This report has been compiled in order to assure that the Municipality complies with the minimum requirements as set out in the Department of Water Affairs Minimum requirements for Waste Disposal by Landfill, 1998 and the current National norms and standards for Waste Disposal as published in Government Gazette Notices 634, 635 and 636 of 2013 as well as the National Environment Management Waste Act (Act 59 of 2008).

It is estimated that the landfill site will be rehabilitated in 11 years' time for the Wolmaransstad landfill site. The municipality has decided to close the Witpoort, Leeudoring and Maquassi landfill sites. The estimated future expenditure to rehabilitate the

landfill was discounted at annual rate of 9.32% (which is based on the yield curve of the bond exchange of South Africa).

16. Revenue

Licences and permits	2 103 094	1 945 731
Service charges	152 921 023	166 691 165
Rental of facilities and equipment	572 058	722 353
Other income	1 246 855	2 558 634
Interest revenue	64 537 904	55 404 821
Property rates	32 089 433	35 084 639
Other taxation revenue 1	-	1 320
Government grants	172 178 844	170 238 474
Fines	15 876 540	11 577 729
	441 524 765	444 225 534

The amount included in revenue arising from exchanges of goods or services are as follows:

Licence and permits	2 103 094	1 945 731
Service charges	152 921 023	166 682 953
Rental of facilities and equipment	572 058	722 353
Other income	1 246 855	2 558 634
Interest revenue	64 537 904	55 404 821
	221 380 935	227 310 453

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	32 089 433	35 093 518
Fair value adjustments	-	1 320
Transfer revenue		
Government grants	172 178 844	170 238 474
Fines	15 876 540	11 577 729
	220 143 829	216 909 721

17. Service charges

Sale of electricity	57 317 772	53 337 114
Sale of water	51 135 272	66 022 048
Sewerage and sanitation charges	29 722 506	31 416 119
Refuse removal	14 745 471	15 907 670
	152 921 022	166 682 953

18. Rental of facilities and equipment**Premises**

Rental of facilities	572 058	722 353
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19. Other income

Advertising	25 206	29 759
Blocked sewerage fees	-	798
Building plans fees and copies	75 693	75 932
Photocopies & Faxes	17 760	-
Cemetery fees	158 868	134 553
Clearance certificates	17 262	14 773
Connection fees:electricity	2 112	2 957
Library fees	2 632	-
Connection fees : water	-	950
Pump removal waste water	2 975	-
Deeds search	105	142
Dividends	-	1 458
Donations received	-	1 000 000
Encroachment	-	1 028
Fines: Library	11	275
Replacement of security cards	14	-
Insurance recoveries	441 698	194 944
Lost books library	-	31
Meter testing	-	206
Photostat fees	-	4 382
Poster fees	182 517	75 237
Reconnections : electricity	121 088	52 656
Reconnections: water	20 959	7 625
Advertiment signs	1 719	-
SETA	-	184 800
Sale of inventory	-	410 182
Incidental cash surplus	380	-
Sales: Town maps	-	58
Stock surplus	-	2 101
Administrative fees	1 260	-
Pump removal	3 497	-
Supply of information	170 380	191 429
Circuit breaker	173	-
Transfer of even	-	173 190
User fees	-	250
Valuation certificates	53	918
	1 246 855	2 560 634

20. Interest revenue**Interest revenue**

Bank	966 613	915 117
Interest charged on trade and other receivables	63 571 291	54 489 704
	64 537 904	55 404 821

Interest is levied on rates outstanding after 30 days at prime interest rate plus 1%.

21. Property rates

Rates received

All categories	32 089 433	35 084 639
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Valuations

Residential	1 244 740 169	1 240 392 280
Commercial	232 611 573	240 226 295
State	89 765 380	89 907 810
Agriculture	2 325 976 044	2 313 464 109
Other	5 889 200	5 889 200
	3 898 982 366	3 889 879 694

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied on a monthly basis.

Income foregone

In terms of the Municipal Property Rates Act, Act 6 of 2004 rebates and exemptions from property rates are given. The following is applicable for the year under review:

Rebates and exemptions from property rates are only given on Residential and Agricultural zones.

Residential	(4 983 368)	(5 769 499)
Agriculture	(1 957)	(400)
Government	(253 817)	(229 880)
	(5 239 142)	(5 999 779)

22. Government grants and subsidies

Operating grants

Equitable Share	93 451 000	94 022 000
Provincial Infrastructure Grant	14 000 000	-
Integrated National Electrification Programme Grant	5 000 000	-
Finance Management Grant	2 209 463	1 343 827
EPWP	1 000 000	1 157 895
Library Grant	1 191 458	1 136 506
Water Services Infrastructure Grant	18 510 077	-
	135 361 998	97 660 228

Capital grants

Municipal Infrastructure Grant	36 816 846	69 578 246
Energy Efficiency and Demand Side Management grant	-	3 000 000
	36 816 846	72 578 246
	172 178 844	170 238 474

22. Government grants and subsidies (continued)

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy which is funded from the grant.

Indigent subsidy	50 654	1 594 638
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Municipal Infrastructure Grant

Balance unspent at beginning of year	12 291 846	10 398 092
Current-year receipts	24 525 000	77 925 000
Conditions met - transferred to revenue	(36 816 846)	(69 578 245)
Amount paid back to Treasury	-	(6 453 000)

Conditions still to be met - transferred to liabilities	-	12 291 846
--	----------	-------------------

The Municipal Infrastructure Grant complements the equitable share grant for local government, however, it is provided conditionally to municipalities. One of the key objects of the grant is to fully subsidise the capital costs of providing basic services to poor households. This implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services.

The grant was used by the Municipality to build and develop its infrastructure. The unused funds are committed and remain a liability at financial year end (see Note 15).

Provincial Government Library Grant

Balance unspent at beginning of year	41 457	177 963
Current-year receipts	1 150 000	1 000 000
Conditions met - transferred to revenue	(1 191 457)	(1 136 506)

Conditions still to be met - transferred to liabilities	-	41 457
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The purpose of the grant is to maintain and operate the local library for the benefit of the community. The unused funds are committed and remain a liability at financial year end (see Note 15).

Finance Management Grant

Balance unspent at beginning of year	477 243	11 070
Current-year receipts	2 145 000	1 810 000
Conditions met - transferred to revenue	(2 209 463)	(1 343 827)

Conditions still to be met - transferred to liabilities	412 780	477 243
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The main purpose of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills. The grant was utilised by the Municipality for its intended purposes.

22. Government grants and subsidies (continued)

Dr Kenneth Kaunda District Municipality

Balance unspent at beginning of year	20 316	20 316
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The unused funds are committed and remain a liability at financial year end (see Note 15).

This grant is received from Dr Kenneth Kaunda District Municipality as part of Inter-Governmental Relations. The grant is based on a business plan submission by the Municipality to the District Municipality. The District Municipality remains the implementing agent and the Municipality is the beneficiary.

EPWP Roads

Balance unspent at beginning of year	-	74 894
Current-year receipts	1 000 000	1 083 000
Conditions met - transferred to revenue	(1 000 000)	(1 157 894)
Conditions still to be met - transferred to liabilities	-	-

The grant is received from the National Department of Public Works for creating job opportunities for unemployed persons and so allowing them economic participation and resulting in poverty alleviation.

Energy Efficiency and Demand Side Management Grant

Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(3 000 000)
Conditions still to be met - transferred to liabilities	-	-

The purpose of this grant is to support municipalities in implementing traffic lights, street lights, high mast lights and building lights as well as energy efficiency in water and sewage infrastructure.

Integrated National Electrification Programme

Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(5 000 000)	-
Conditions still to be met - transferred to liabilities	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Provincial Infrastructure Grant

Current-year receipts	18 510 078	-
Conditions met - transferred to revenue	(18 510 078)	-
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Water Service Infrastructure Grant

Current-year receipts	14 000 000	-
Conditions met - transferred to revenue	(14 000 000)	-
	-	-

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

23. Employee related costs

Employee related costs - Salaries and Wages	39 816 720	42 346 286
Employee related costs - Contributions for UIF, pensions and medical aids	11 870 459	11 804 268
Travel, motor car, accommodation, subsistence and other allowances	4 918 309	4 698 187
Housing benefits and allowances	832 745	879 154
Performance and other bonuses	2 813 258	2 199 859
Overtime payments	4 694 146	3 663 831
Employee benefit costs	-	(3 022 173)
Other employee related costs	509 403	34 043
	65 455 040	62 603 455

Remuneration of Municipal Manager(S Lehloenya)

Annual Remuneration	120 415	1 123 780
Car Allowance	-	210 118
Contributions to UIF, Medical and Pension Funds	-	92 668
	120 415	1 426 566

The Municipal Manager's post has been vacant for the whole financial year.

Remuneration of Municipal Manager(T Chanda)

Annual Remuneration	47 464	-
Contributions to UIF, Medical and Pension Funds	297	-
	47 761	-

Remuneration of the Chief Finance Officer (J Mogoemang)

Annual Remuneration	368 330	405 161
	-	16 655
	368 330	421 816

The Chief Financial Officer post was Vacant for the whole financial year. Mr Mogoemang has been acting on the post

Remuneration of executive directors**24. Remuneration of councillors**

Mayor	494 707	451 044
Speaker	383 512	370 342
Executive Committee Members	1 171 629	1 151 351
Councillors	3 026 474	2 747 708
Councillors' pension and medical aid contributions	633 938	550 345
Councillors' allowances	2 867 517	2 251 198
	8 577 777	7 521 988

25. Depreciation

Property, plant and equipment	30 519 569	41 501 332
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26. Finance costs

Trade and other payables	835 682	866 729
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26. Finance costs (continued)

Discounting of landfill site provision	1 626 937	435 470
Borrowings	2 471 537	2 269 796
Interest expense on employee benefit obligation	2 719 537	2 757 657
	7 653 693	6 329 652

27. Debt impairment

Contributions to debt impairment provision	146 894 035	178 641 499
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28. Bulk purchases

Electricity	51 564 710	47 246 202
Water	50 253 961	53 797 650
	101 818 671	101 043 852

29. Contracted services

Outsourced	587 104	3 882 085
Consultants and Professional Services	8 313 159	910 618
Contractors	5 152 405	1 355 128
	14 052 668	6 147 831

30. General expenses

Advertising	616 753	219 006
Aid allowance and grants	-	887 000
Auditors remuneration	1 749 605	2 615 353
Bank charges	395 303	565 711
Cleaning	-	18 868
Commission paid	-	840 241
Community development and training	10 500	24 500
Computer expenses	150 625	693 840
Consulting and professional fees	-	14 220 668
Contribution to landfill site	(1 439 869)	(875 314)
Deed notices	-	68 753
Departmental consumption	9 704 236	3 027 721
Entertainment	-	304 488
Fuel and oil	947 979	1 825 660
Indigent relief	50 654	1 594 638
Internal transfers	-	733 659
Internet services	-	58 314
Consumables	-	3 861 179
Registration fees	7 567 743	-
License fees	169 787	81 086
MPRA : Phase-in and rebates	5 585 977	4 781 628
Mayoral projects	-	1 296 670
Membership fees	7 052	1 098 998
Postage	-	15 361
Pre-paid meter installation	210 225	256 375
Printing and stationery	5 070	1 287 859
SETA	-	638 290
Security costs	-	1 671 734
Skills development levies	564 758	525 618
Staff welfare	-	1 038
Stock shortage	-	2 310
Stocks and material	40 578	40 574
Subscription and publication	-	34 711
Telephone	768 978	2 334 381
Town planning scheme	-	878 729
Training	-	711 805
Travel and subsistence	1 210 357	1 318 487
Uniforms	86 979	62 812
	28 403 290	47 722 751

31. Auditors' remuneration

Fees	1 749 605	2 615 353
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32. Cash generated from operations

Surplus (deficit)	16 817 442	(24 383 854)
Adjustments for:		
Depreciation	30 519 569	41 501 332
Loss on disposal of assets	1 614 289	305 940
Impairment deficit	43 570	2 878 445
Other non-cash movements - PPE	(354 745)	(354 745)
Increase/(decrease) in employee benefit obligation	(40 000)	(643 000)
(Decrease)/increase in provisions	1 439 869	(439 844)
Fair value adjustment	-	(1 320)
Changes in working capital:		
Trade and other receivables from exchange transactions	(10 979 642)	4 247 053
Other receivables from non-exchange transactions	12 018 790	6 203 617
Inventory	4 472	
Payables from exchange transactions	264 702 040	27 875 296
VAT	16 148 621	(1 988 755)
Unspent conditional grants and receipts	(12 397 767)	2 148 527
Consumer deposits	8 149	33 405
	334 678 638	57 412 583

33. Commitments

Commitments in respect of capital expenditure

Approved and contracted for

• Infrastructure assets	26 548 503	23 324 600
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Not yet contracted for and authorised by accounting officers

• Municipal Infrastructure Grant	26 548 503	23 324 600
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Total capital commitments

Already contracted for but not provided for	2 705 591	45 318 720
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Operating leases - Municipality as lessee

Operating Leases : Office Equipment

Minimum lease payments	Straight-lined value of minimum lease payment
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Minimum lease payments due

- within one year	932 732	1 124 520
- in second to fifth year inclusive	1 829 868	1 829 868
- later than five years	(932 732)	(1 124 520)
	1 829 868	1 829 868

30 June 2017

Within one year	686 556	681 067
Within two to five years	101 039	101 039
Less : Amount due for settlement within 12 months (current portion)	(681 067)	(681 067)
	106 528	101 039

33. Commitments (continued)

The average lease term is 3-5 years. Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements. The annual escalation rate varies between 10% to 15%. The Municipality's obligation under operating leases is secured by the lessor's charge over the leased assets.

The Municipality did not default on any of the interest or capital repayment of the operating leases. All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets. There is no restriction imposed on the lease arrangements.

Operating leases - Municipality as lessor

Operating leases : Land and buildings	Minimum lease payments	Straight-lined value of minimum lease payments
30 June 2018		
Within one year	-	253 041
Within two years to five years	212 212	212 212
Less : Amount due for receipt within 12 months (current portion)	(253 041)	(253 041)
	(40 828)	212 212
Minimum lease payments due		
- within one year	-	400 798
- in second to fifth year inclusive	-	212 522
- later than five years	-	(400 798)
	-	212 522

The average lease term is 3-15 years and the average effective borrowing rate is 10%. Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

The Municipality monitors rental payments and institutes debt control where needed. No terms and conditions of the leases were re-negotiated. All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets.

The average lease term is 3-15 years and the average effective borrowing rate is 10%. Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

The Municipality monitors rental payments and institutes debt control where needed. No terms and conditions of the leases were re-negotiated. All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets.

Operating leases: Graders	2018
30 June 2018	
Within one year (Current year)	11 855 262
Prior year (2017)	11 854 233

34. Contingencies

Contingent liabilities

Year under review claims

K Litheko and others - they were dismissed and the matter is pending to the CCMA - Amount is R300 000
Mr Morekolodi Vincent Tokwe - The claim relates to damage to his vehicle by drive - Amount is R58 576.74
Mr MM Volscheck - Damage to vehicle - Amount is R7 273
Mahlangu vs Maquassi Hills Local Municipality - Unfair Dismissal R450 000
Mahlangu vs Maquassi Hills Local Municipality - Unfair Labour Practice R300 000

Previous years claims

Mr Windy Mahlangu - Unfair labour practice dispute, the matter is pending to CCMA - Amount resulted to R300 000.
Department of Labour - The fine in terms of the provisions of Section 21(B) - The amount resulted to R1 500 000.
Mr D. Struwig - The claim of relates to the damage to his vehicle by a pothole in Leeudoringstad - Amount resulted to R8 924.
Mr R Ali - The claim relates to damage to his vehicle by potholes - Amount resulted to R18 043
Mr Manele - The claim relate to damage to his wall fence - The amount resulted to R63 800 -
Mr KD Mohadi - a claim for damages suffered councillor subsequent to his house being burned down during a community riot.
- The amount resulted to R82 460
Mr GS Dlanjwa - non-payment of an account for alleged legal services rendered by him - The amount resulted to R339 640. -
Spar Group - Spar group has a claim against the municipality for unauthorised parking space - The amount resulted to R 1 701 875
-Khaoue and another - Protected disclosure application. Possible liability of R200 000.
-Collen Mafulako - Review application. Possible liability of R200 000
.-Reuben Medupe - Review application. Possible liability of R200 000.
- Mr Solomon Besani - High court application to set aside a council resolution - Amount resulted to R500 000
- Mr M. Besani - The contract of the Municipality's former Director: Engineering Services was terminated and the matter is currently at the Labour Court for review - The amount resulted to R1 537 744.

35. Related parties

Section 57 Managers

No remuneration was paid to family members of Section 57 Managers.

Members of Council:

No remuneration was paid to family member of the council.

All councillors and employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over council in making financial and operating decisions.

District Municipality:

Maquassi Hills Local Municipality is related to Dr Kenneth Kaunda District Municipality. Transactions with the District Municipality and balances owing by Maquassi Hills Local Municipality are disclosed below.

Related party balance

The amount owed relates to the loan the Municipality has with the District Municipality.
The terms of this loan are disclosed in note 10.

An amount is also owed to the District Municipality relating to an unspent condition grant.
The terms of this unspent conditional grant are disclosed in note 22.

Loan owing to the related party - Dr Kenneth Kaunda District Municipality		
Total liability	<u>123698</u>	<u>123698</u>
Unspent conditional grant owing to Dr Kenneth Kaunda District Municipality.	<u>20316</u>	<u>20316</u>

35. Related parties (continued)**Related party balances****Amounts included in Trade receivable (Trade Payable) regarding related parties**

KA Mogapi	2 994	436
PT Mokgabi	1 088	427
NL Tshingilane	-	3 508
MN Ntuli	7 335	7 305
MD Notwane	8 592	181 192
KS Seakane	446	67 599
AO Phutiage	42 083	113 007
SO Masibi	25 098	25 502
NF Maxatshwa	54 717	87 953
J Pheiffer	2 134	2 307
TS Malebatsane	97 337	169 262
MM Moepi	96 798	35 417
GV Kgabi	10 293	1 783
IR Dintwe	92 695	119 115
KJ Selebano	569	55 197
BF Maphatsoe	99 322	63 897
TP Bolao	35 600	28 480
SD Manele	2 475	10 275
MD Marumo	71 237	66 412
LS tatabang	33 585	27 554
GJ van Zyl	-	1 783

Related party transactions**Related party transactions**

KA Mogapi	697	656
PT Mokgabi	291	274
NLTshingilane	342	322
MN Ntuli	351	1 002
MD Notwane	342	981
KS Seakane	438	536
AO Phutiage	479	3 186
SO Masibi	332	625
NF Maxatshwa	11 679	10 996
J Pheiffer	308	516
TS Malebatsane	208	709
MM Moepi	735	692
IR Dintwe	371	1 363
KJ Selebalo	-	166
BF Maphatsoe	330	310
TP Bolao	906	1 162
LS Tatabang	479	413
SD Manele	567	2 141
MD Marumo	359	853
KG Mojela	-	38
MS Sejesc	-	322
NW Ntiane	-	269
DK Mohadi	-	26
BJ Mahumapelo	-	27

Service charges levied

KA Mogapi	6 808	5 270
PT Mokgabi	4 448	3 186
NLTshingilane	6 204	12 810
MN Ntuli	4 086	3 567

35. Related parties (continued)

MD Notwane	3 885	39 194
KS Seakane	9 495	13 568
AO Phutiage	8 541	26 607
SO Masibi	5 037	14 555
NF Maxatshwa	7 142	13 824
J Pheiffer	19 287	8 972
TS Malebatsane	9 369	13 825
MM Moepi	15 021	8 972
GV Kgabi	36 427	41 297
IR Dintwe	29 911	21 998
KJ Selebalo	1 704	12 444
BF Maphatsoe	35 097	3 426
TO Bolao	6 413	4 894
GJ van Zyl	-	5 026
BJ Mahumapelo	-	285
SD Manele	1 981	8 039
MD Marumo	7 689	6 147
KG Mojela	-	265
MD Matete	-	386
MS Sejeso	-	6 519
MW Ntiane	-	406
ME Motaung	-	265
DK Mohadi	-	265

Compensation to accounting officers and other key management

Short-term employee benefits	739 910	-
Defined contribution plans	532 217	-
	1 272 127	-

36. Risk management**Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2018	2017
Payables from exchange transactions	441 453 542	176 803 951
Short term portion on long term liabilities	7 199 825	5 629 225
Bank overdraft	-	4 333 879
	448 653 367	186 767 055

Credit risk

Credit risk is the risk of financial loss to the Municipality if customers or counterparties to financial instruments fail to meet their contractual obligations.

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Maquassi Hills Local Municipality

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36. Risk management (continued)

Receivables comprise a widespread customer base. Management cannot however impose limits which it can impose on the rates charged to its customers as it has a constitutional obligation to render these services to its stakeholders. Credit control measure to ensure the recovery of debts are therefore implemented in line with the Municipalities credit control policies.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, receivables and cash and cash equivalents.

These balances represent the maximum exposure to credit risk:

	2018	2017
Cash and cash equivalent	12 085 774	5 129 860
Short term investment deposits	360 000	387 714
Trade and other receivables from exchange and non-exchange transactions	68 655 577	46 763 354

Market risk

Interest rate risk

Deposits and overdue consumer debtors attract interest at a rate that vary with prime. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates does not have a material impact on surplus/deficit.

37. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations for the Municipality and raise and collect revenue for services rendered.

The Municipality's liquidity ratios are shown below. Cash / cost coverage ratio indicates the Municipality's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month. The ratio is adjusted for unspent conditional grants as the cash is not available for normal Municipal day-to-day operational expenditure but rather reserved for grant related expenditure.

The municipality has solicited services of the debt collection and credit control companies to ensure that collection rate of the municipality is brought to an acceptable level in line with Circular 71 of the National Treasury.

Strict measures will be enforced on all debtors who default on their accounts, this will be done in line with Council Policy on Debt Collection and Credit Control as well as measures that will be enforced by service providers as appointed by council to assist in this regard. It is envisaged that this measures will assist in improving the collection rate of the municipality. For long term, the National Treasury will also be approached to assist the municipality with the development of a Financial Recovery Plan to assist the municipality to deal with all other matters relating revenue as well as capacity within the Budget and Treasury Office.

38. Events after the reporting date

There are no material events after the reporting date.

39. Unauthorised expenditure

Opening balance	539 209 137	408 437 795
Unauthorised expenditure	156 925 610	130 771 342
Total unauthorised expenditure	696 134 747	539 209 137

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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40. Fruitless and wasteful expenditure

Opening balance	7 067 647	3 030 552
Interest and penalties	534 665	1 114 108
Wenum	-	2 922 987
Fruitless and wasteful expenditure awaiting condonement	7 602 312	7 067 647

The fruitless and wasteful expenditure that is under investigation amount to R534 665(2017: R4 037 094).

The reasons for the fruitless and wasteful expenditure were mainly due to emergency cases and sole/single suppliers. in terms of section 36(1)(a)(i) 36(1)(a)(ii) and 36(1)(a)(v)

From a total expenditure of R286 593 320 (2017: R466 604 850), deviations were R552 203 from a total number of 5 cases.

41. Irregular expenditure

Opening balance	236 177 382	179 271 496
Bid documents not submitted/No contracts in place	11 513 172	43 840 793
SCM and Tender process not followed	54 357 614	13 065 093
Irregular expenditure awaiting ratification and condonement	302 048 168	236 177 382

The following cases were reported during the 2017/18 financial year and are included below.

Irregular expenditure arising through finalising investigations R2 637 456.70 and R939 282.62(2017) Non compliance with SCM various. This expenditure is deemed to be irregular due to Public Tender Process not being adhered to, 3 quotations not being obtained and adverts not being obtained adequate advertised. R58 779 197.53 and R52 803 911.71.

Non compliance with MFMA - Section 12 R4 454 132.11 and R 2 637 456.70

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 032 520	777 970
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Skills development levy

Current year subscription / fee	542 949	525 618
Amount paid - current year	(542 949)	(525 618)
	-	-

Audit fees

Opening balance	819 676	2 491 731
Current year audit fee	1 749 605	2 615 353
Amount paid - current year	(1 311 505)	(4 287 408)
	1 257 776	819 676

PAYE and UIF

Current year payroll deductions and council contributions	8 994 513	9 574 719
Amount paid - current year	(8 994 513)	(9 574 719)
	-	-

Pension and Medical Aid Deductions

Maquassi Hills Local Municipality

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42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Current year subscription / fee	8 906 556	18 811 444
Amount paid - current year	(8 906 556)	(18 811 444)
	-	-

VAT

VAT receivable	7 012 686	26 433 098
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The Municipality is on the payment basis for VAT and submit monthly returns.

All VAT returns have been submitted by the due date throughout the year.

Maquassi Hills Local Municipality

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42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Deviation from supply chain management regulations

Paragraph 12(1) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of written/verbal quotations, formal written quotations and a competitive bidding process, depending on the specified threshold values.

Paragraph 36 of the above mentioned gazette also provides that the Accounting Officer may dispense with the official procurement process in certain circumstances provided that he/she records the reasons for any deviations, reports them to the next meeting of the Council and include as a note to the financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12 (1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviations from the normal supply chain management regulation. Deviations for quarters 1 to 3 were reported Council.

The reasons for the deviations were mainly due to emergency cases and sole/single suppliers. in terms of section 36(1)(a)(i) and 36(1)(a)(ii)

From a total expenditure of R286 593 320 (2017: R466 604 850), deviations were R71 915 (2017: R1 404 468.65) being 0.21% (2017: 0.41%) of the total expenditure.

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43. Prior period errors

Investments

It was discovered that the investment disclosed as current assets were overstated by R27 714 which comprises of sharesheld with Suidews. The shares should be disclosed as non-current assets.

Other financial liabilities

It was discovered that the loan balances disclosed as other financial liabilities were overstated by R620 150. This was due to incorrect confirmation received from third party. It was also discovered that the short term portion of the loan was understated by R399 975 .

Remuneration of key management

It was note that the acting allowance for Mr KJ Leseisani was overstated by R138 558.

Irregular Expenditure

It was discovered that the irregular expenditure was understated by R12 759 104 during the audit of SCM

VAT Receivables: We discovered that the prior year amount was overstated by R3 271 791 in the result of incorrect calculation.

Service charges In the prior year, we discovered that the stands were not billed though the meter reading were taken for these consumers for the year R2 358 668

Opening Accumulated surplus

Balances as previously reported	30 June 2017 799 082 358
Restatement of borrowings	(399 975)
Restatements of property plant and equipment	(681 447)
Key Mangement Personnel	(138 656)
Correction of Vat Receivables	

3 271 791

2 358 668

Correction of service charges

Closing restated balance

800 400 748

Investments

Balance as previously reported	30 June 2017 387 714
Correction of MBD prior year error	-27 714

Restated closing balance

176 751 502

Borrowings & long-term loans

Balance as previously – Current liabilities	30 June 2017 5 629 225
Correction of overstatement of Dr K Kaunda District Municipality	-620 150
Correction of short term portion of loan not calculated	1 020 125

6 029 20

Restated closing balance

Property, Plant & Equipment

Balance as previously stated	30 June 2017 940 474 422
Understatement of Land	328 426
Building destroyed by fire not impaired	-272 172
Correction of depreciation	737 701

Restated closing balance

939 792 975

Irregular expenditure

Amount previously reported	30 June 2017 196 891 213
Irregular expenditure on SCM non-compliance	12 759 104

Restated amount

209 650 317

Maquassi Hills Local Municipality

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Prior Period Error Continue

Vat Receivables

Balance previously reported

Correct of prior year error

Restated amount

30 June 2017

26 433 098

-3 271 791

23 161 307

Service charges

Balance previously reported

Correct of prior year error

Restated amount

30 June 2017

164 333 165

2 358 668

166 691 833

Receivables

Balance previously reported

Correct of prior year error

Restated amount

30 June 2017

27 123 694

585 750

26 537 944

Payables from exchange transaction

Balance previously reported

Correct of prior year error

Restated amount

30 June 2017

176 019 748

731 753

176 751 502

44. Distribution losses

Electricity losses

Electricity units (kWh) purchased from Eskom

Electricity units (kWh) sold to consumers

50 754 675 50 251 071

(64 471 363) (42 106 710)

(13 716 688) 8 144 361

Electricity profit for the financial year is 27.79% (2017: 16.21%). The Electricity (losses in units) for the current financial year is 8 144 361 kWh (2017 : 4 735 090 kWh).

44. Distribution losses (continued)

Water losses

Water (KL) purchased

Water (KL) sold to consumers

4 952 779 5 188 616

(2 997 992) (3 295 122)

1 954 787 1 893 494

Water losses for the financial year is 39.47% (2017: 36.49%). The Water (losses in units) for the current year is 1 954 787 KL (2017: 1 893 494 KL).

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45. Budget differences

Material differences between budget and actual amounts

The variances are due:

Licenses and permits: Actual revenue excluded amounts repaid to the Department of Transport as part of the agreement to collect revenue on behalf of the department. The municipality only gets 20% agency fee/commission and 80% is payable to Department of Transport.

Service charges: The municipality billed a lot more than initially budgeted, therefore the budgeted was adjusted upwards.

Interest revenue: Unpaid receivables grew during the year due to customers being unable to pay their municipal debts. This resulted in an increase in the interest charged on overdue debts. In addition council has also under budgeted for this item, hence adjustments had to be made.

Government grants: The total usage of the MIG grant was beyond budgeted expectations due to speedy project implementation and as a result an additional funding of R51M was received.

Fines: Fines, licenses and permits are generally performing well, with collection of 100% respectively.

Personnel costs: Employee costs reduced as a result on vacancies in the current year.

Asset impairment: The impairment loss on PPE are further explained on note 10 of the Annual Financial Statements.

Debt impairment: The debt impairment increased as a result of the inability to increase repayments of debts from customers.

Bulk purchases: The bulk purchases exceeded budget due to an increase in consumption by customers during the period and also council has under budgeted for bulk purchases.

Contracted services: Deviation can be attributed to general cash flow problem the Municipality experienced during the year resulting in less general expenses incurred compared to actual budget.

General expenses: Deviation can be attributed to general cash flow problem the Municipality experienced during the year resulting in less general expenses incurred compared to actual budget.

VAT receivable: There was no budgeted amount.

Receivables: There was no budgeted amount.

Investment property: There was no budgeted amount.

Property, plant and equipment: The budget was estimated based on the additions that are supposed to purchase during the year and movement is considered reasonable.

Payables from exchange transactions: The budgeted amount is based on the estimated expenditure.

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

45. Budget differences (continued)

Unspent conditional grants: There was no budgeted amount.

Employee benefit obligation: There was no budgeted amount

Provisions: Figures are based on the requirements of the Department of Environmental affairs as provision consist of Employee benefit obligation.

Changes from the approved budget to the final budget

The variances are due:

Statement of Financial Performance

Service charges: The municipality billed a lot more than initially budgeted, therefore the budgeted was adjusted upwards.

Fines and licences and permits: Fines, licences and permits are generally performing well, with collection standing at 178% and 100% respectively. Revenue projection of these service will have to be projected upwards when an adjustment budget is compiled.

Rental of facilities and equipment: The municipality billed more than approved budget, therefore the budgeted was increased.

Interest on outstanding debtors: The municipality collected more monies from debtors due to the revenue enhancement implemented during the year under review.

Interest on investments: Interest on investment was initially under budgeted due to pressure to decrease reduce costs and therefore reduce budgeted income.

Other income: The estimate was decreased due to the fact that the traffic department is no longer operational and the rate of collection is

Property rates: The budgeted Property rates amounted to R 36 million, the municipality billed 37 million and managed to collect 19 million Therefore the property rates revenue was adjusted upwards based on the actual collection.

Government grants and subsidies: The municipality no longer receives DBSA grants. There was also a significant MIG allocation received during the year that was not reflected on the initial allocation.

Employee related costs and councilors remuneration: The municipality to collect revenue due to it by implementing the debt collection and credit control policy effectively. The vacancies resulted in the decrease in budgeted amounts.

Depreciation: The budget was aligned to the financial statements of the previous year.

Finance costs: The budget was increased as creditors were not paid on time.

Bulk purchases: Over expenditure is as a result of the municipality paying arrear accounts of Eskom and Water Boards in line with the payment agreement that is currently in place.

Contracted services: There were savings in changes of some of the contractors.

General expenses: Due to MSCOA account allocations the general expenditure was decreased as some of the amounts were not part of contracted service

Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

45. Budget differences

(continued) Statement of

Financial Position

Property, plant and equipment and Accumulated surplus: Additional MIG funding resulted in the increase in Property, plant and equipment and therefore Accumulated surplus.

Cash Flow Statement:

All adjustments to the cash flow statement are attributable to the adjustments highlighted above.

46. Reclassifications due to MSCOA implementation

The municipality early implemented MSCOA (Municipal Standard Chart of Accounts) effective 01 July 2016. The implementation of MSCOA has resulted in the reclassification of certain items of Receivables, Contracted Services and Expenditure to different categories or to be included in different line-items. The objective of the reclassification is to make the financial statements more useful and understandable to the users.

General Expense

Expenditure accounts and Contracted Services that had been disclosed at a consolidated level in the previous year have since been broken down to the lowest transaction level in line with MSCOA requirements. It was not practical to restate comparative figures for these accounts due to information not available at the lowest transactional level in the prior year. This situation is unique to the current year because it is the first year of the MSCOA implementation. The expense line items affected are listed in the tables below.

	Expenses per prior year Financial statements	Comparative expense per Current year Financial Statements
Advertising	219 006.00	219 006.00
Aid allowance and grants	887 000.00	887 000.00
Auditors remuneration	2 615 353.00	2 615 353.00
Bank charges	565 711.00	565 711.00
Cleaning	18 868.00	18 868.00
Commission paid	840 241.00	840 241.00
Consulting services	14 220 668.00	12693689.95
Community development and training	24 500.00	24 500.00
Computer expenses	693 840.00	693 840.00
Contribution to Landfull site	(875 314.00)	(875 314.00)
Deed notices	68 753.00	68 753.00
Departmental consumption	3 027 721.00	3 027 721.00
Entertainment	304 488.0	304 488.0
Fuel and oil	1 825 660.0	1 825 660.0
Indigent relief	1 594 638.00	1 594 638.00
Internal transfers	733 659.00	733 659.00
Internet services	58 314.00	58 314.00
Registration fees	-	-
Legal fees	3 861 179.00	-
License fees	81 086.00	81 086.00
MPRA : Phase-in and rebates	4 781 628.00	4 781 628.00
Mayoral projects	1 296 670.00	1 296 670.00
Membership fees & subscriptions	1 098 998.00	1 098 998.00
Postage	15 361.00	15 361.00
Pre-paid meter installation	256 375.00	256 375.00

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Printing and Publication	1 287 859.0	1 287 859.00
Security cost	1 671 734.0	-
SETA	638 290.0	638 290.0
Skills development levies	525 618.00	525 618.00
Stock shortage	2 310.00	2 310.00
Staff welfare -	1 038.00	1 038.00
Stocks and material	40 574.00	40 574.00
Subscription and publication	34 711.00	34 711.00
Telephone	2 334 381.00	2 334 381.00
Training	711 805.00	711 805.00
Town Planner	878 729.00	-
Travel and subsistence	1 318 487.00	1 318 487.00
Uniforms	62 812.00	62 812.00
TMT	910 617.58	910 617.58
Legal		
Fees	-	3 861 179.00
Insurance	1 355 128.22	1 355 128.22
Consulting and Professional fees	-	732 036.96
Town Planning		
Scheme	-	878 729.00
Valuer & Assessors	-	794 941.09
Security Costs	-	1 671 734.00
IT		
Licenses	3 882 084.54	3 882 084.54

53 870 581.34	53 870 581.34
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Trade and other receivables – Non exchange debtors

The opening balances of the current financial year were classified in order to demonstrate the change in classification due to the implementation of MSCOA. Certain debtors that were previously disclosed as other non-billing debtors under non-exchange are now reclassified as Service charges as indicated below. Retrospective implementation of the change is regarded impracticable, therefore a prospective approach has been adopted.

	Previous Opening balances 01/07/2017	Restated Opening balances 01/07/2017
Consumer Debt – Name	343 651.41	
Sundry Debtors	505 823.66	
Councilor Allowance Debits	226 436.15	
Pre-paid expense	(13 040.23)	
Service Charge – Opening Balance		1 062 870.99

